

AR51



**Drummond
McCall
Inc.
Annual Report
1978**

Financial Highlights

(In thousands of dollars except where noted by asterisk)

	1978	1977
Sales and Other Income	\$149,315	\$102,385
Earnings		
– before extraordinary item	4,195	3,034
– after extraordinary item	4,721	3,034
Earnings per Share		
– before extraordinary item*	2.96	2.15
– after extraordinary item*	3.33	2.15
Return on Sales and Other Income		
– before extraordinary item	2.8%	3.0%
– after extraordinary item	3.2%	3.0%

Head Office

5205 Fairway Street,
Lachine, Quebec

Mailing Address

P.O. Box 219, Station A,
Montreal, Quebec H3C 2S4

Offices and Plants

Halifax, Saint John, Jonquiere, Quebec, Montreal, Toronto, Hamilton, Thunder Bay,
Winnipeg, Calgary, Edmonton, Kelowna, Prince George, Whitehorse, Vancouver,
Campbell River, Nanaimo, Victoria

Portland, Maine

Incorporation

Under the laws of Canada

Auditors

Price Waterhouse & Co.
Montreal, Quebec

Legal Counsel

Ogilvy, Montgomery, Renault, Clarke, Kirkpatrick, Hannon & Howard
Montreal, Quebec

Share Transfer Agent and Registrar

The Royal Trust Company
Halifax, Montreal, Toronto, Winnipeg, Regina, Calgary, Vancouver

Directors

Douglas T. Bourke
President and Chief Executive Officer, Drummond McCall Inc.

Derek A. Drummond
Associate Professor of Architecture and Director, School of Architecture,
McGill University

Alex D. Hamilton
President and Chief Executive Officer, Domtar Inc.

Kenneth S. Howard, Q.C.
Partner, Ogilvy, Montgomery, Renault, Clarke, Kirkpatrick, Hannon & Howard

Roderick M. Hungerford
President, Flex-Lox Industries Ltd.

Howard J. Lang
Chairman of the Board, Canron Inc.

A. David McCall
Research Manager, Drummond McCall Inc.

R. Kenneth Robertson
Executive Vice-President, Drummond McCall Inc.

Hugh G. Seybold
Director, Drummond McCall Inc.

William H. Young
President, The Hamilton Group Limited

Executive Officers

Douglas T. Bourke
President and Chief Executive Officer

R. Kenneth Robertson
Executive Vice-President

John H. Harrison
Vice-President

Bruce H. Weppler
Vice-President and Secretary-Treasurer

Robin J. Mayes
Controller and Assistant Secretary-Treasurer

Quadra Steel Limited

Subsidiary of Drummond McCall Inc.

Douglas T. Bourke
Chairman of the Board

John H. Harrison
President and Chief Executive Officer

Bruce H. Weppler
Secretary

G. Brian Watts
Treasurer

David W. H. Tupper
Assistant Secretary

Directors' Report to Shareholders

Consolidated sales and other income during 1978 were \$149.3 million, the highest in the Corporation's history, and a substantial increase over the previous year. Part of this increase resulted from the sales of Quadra Steel which are included for the full year 1978, whereas in 1977 they were included for the fourth quarter only. Quadra Steel also expanded the range of its operations during 1978 to include other products such as brass, copper, stainless steel, nickel and chain. Further expansion of the Corporation's services was provided by the opening of new sales offices in Saint John, New Brunswick and Thunder Bay, Ontario.

Demand for all metal products, especially steel, was strong throughout the year. This situation existed particularly in Canada, and also to a lesser extent in the United States. While Canadian steel mills operated at close to capacity levels, steel mills throughout the rest of the western world continued to operate at levels far below capacity. The principal cause of the increased activity in Canada was the severe decline in the value of the Canadian dollar. This devaluation produced a situation which affected the steel market in Canada on two fronts. While world steel prices remained at low levels, the landed cost of imported steel in Canada rose significantly. It also opened up new export markets, largely in the United States, for Canadian based metal fabricating companies. Thus the demand for steel in Canada increased and at the same time the cost of imported steel rose. Many customers who had previously relied on foreign sources of supply now found it cheaper to purchase their supplies locally. This placed an increased demand on domestic mills in an already tight market and led to a situation in which practically all steel products were being allocated to end users. These allocations remain in effect today. In this environment sales of the Corporation increased significantly in all regions of the country. The higher level of industrial activity is continuing in 1979 and it is anticipated that the Corporation's performance for the full year 1979 will show improvement over 1978.

While the Corporation's expenses rose during the year earnings before income taxes and extraordinary item remained at virtually the same proportion of sales as in 1977. Net earnings before extraordinary item were \$4.2 million or \$2.96 per share compared with \$3.0 million or \$2.15 per share in 1977. Furthermore, the Corporation was able to take advantage of the full amount of Quadra Steel's previously accumulated tax losses which resulted in an income tax saving of \$526,000. This is reflected as an extraordinary item in the reported total net earnings for the year. Including this extraordinary item, net earnings for the year were \$4.7 million or \$3.33 per share.

Construction of major additions to both the Winnipeg and Halifax plants was started during the autumn. A total of 60,000 square feet of new plant capacity will be added, which, including equipment, will cost approximately \$2.2 million. Both of these facilities are expected to be completed and in operation by mid 1979. Capital expenditures during 1978 amounted to \$1.4 million, a large portion of which was expended on this new construction.

During the year the Corporation issued, by private placement, \$9.0 million 10 $\frac{1}{4}$ % Sinking Fund Debentures Series C. These debentures, dated August 15, 1978, mature October 15, 1993. The net proceeds from the Series C debentures were used to retire a portion of the Corporation's bank loans and to finance the above

mentioned capital expenditures. The \$1.0 million 10½ % Debentures Series B were repaid when due on June 15, 1978. In addition, the mortgage of \$1.2 million on the Richmond property of Quadra Steel was repaid during the year.

Total assets of the Corporation as at December 31, 1978 were \$82.9 million, compared with \$68.0 million at the end of 1977.

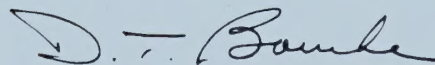
The regular quarterly dividend payable on both the Class A and Class B shares was increased by \$0.025 per share to \$0.275 effective with the third quarter dividend in September 1978. The total regular dividends on each class of share during 1978 were \$1.05 per share. In addition, due to the favourable operating results, a special dividend of \$0.70 per share was paid in December 1978. On the Class A shares this was an ordinary taxable dividend, while on the Class B shares it was paid out of 1971 Capital Surplus On Hand. As a result of changes in income tax legislation it is no longer possible (after December 31, 1978) to pay tax deferred dividends such as those paid in recent years on the Class B shares of the Corporation.

At a Special General Meeting of shareholders held on December 6, 1978, shareholder approval was received to have the Corporation continued under the Canada Business Corporations Act. At the same time the name of the Corporation was changed to Drummond McCall Inc. from Drummond, McCall & Co., Limited/ Drummond, McCall & Cie, Limitée. Also during the year, a subsidiary company, DMC Metals Inc., was incorporated in the United States. It has now commenced operations under that name with the opening of a sales office in the Portland, Maine area.

A Special and Annual Meeting of Shareholders will be held at Le Château Champlain, Place du Canada, Montreal, Quebec on Wednesday, April 11, 1979 at 4:00 p.m.

The improved results for the year would not have been possible without the wholehearted enthusiasm and conscientious efforts of all employees. Their contribution is acknowledged with thanks. The support of our customers and suppliers during this past year is recorded with appreciation.

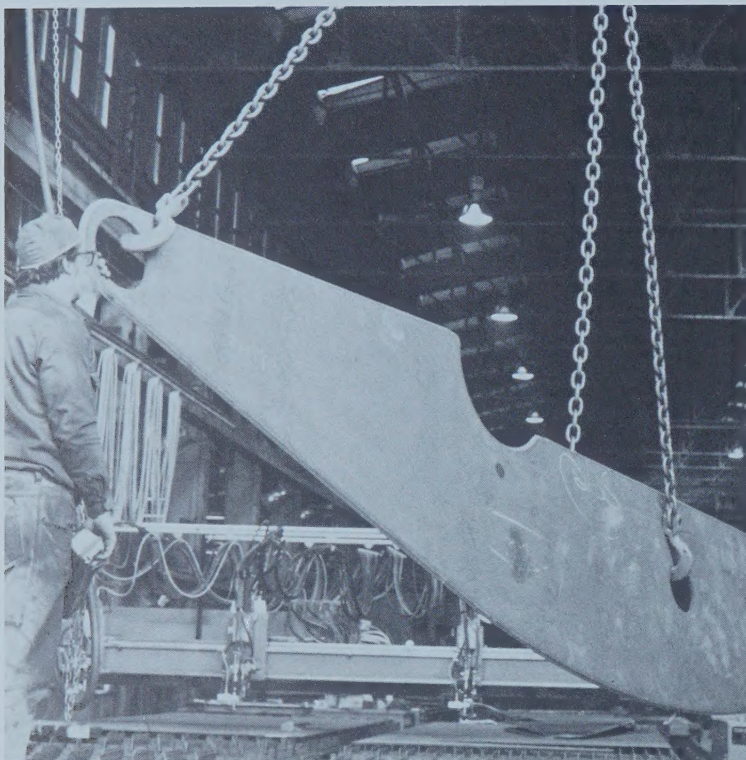
On behalf of the Board of Directors,



D. T. Bourke,
President and Chief Executive Officer

February 21, 1979

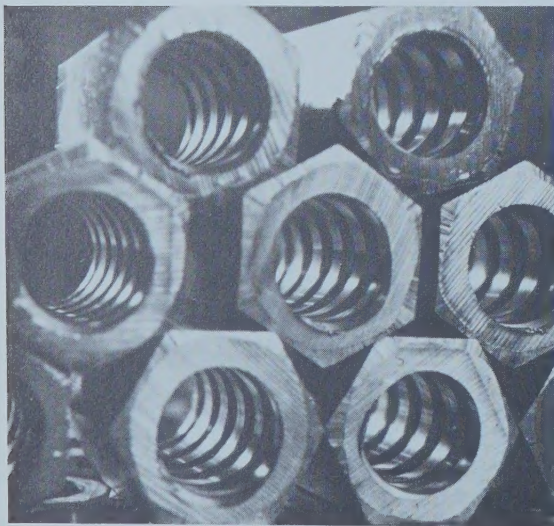
Canada's Most Complete Metal Service



A sling chain assembled by Drummond McCall is shown in use at a customer's plant.



This 13,000 gallon tank trailer train was fabricated using 'Alcan' Road Tanker sheet from Drummond McCall.



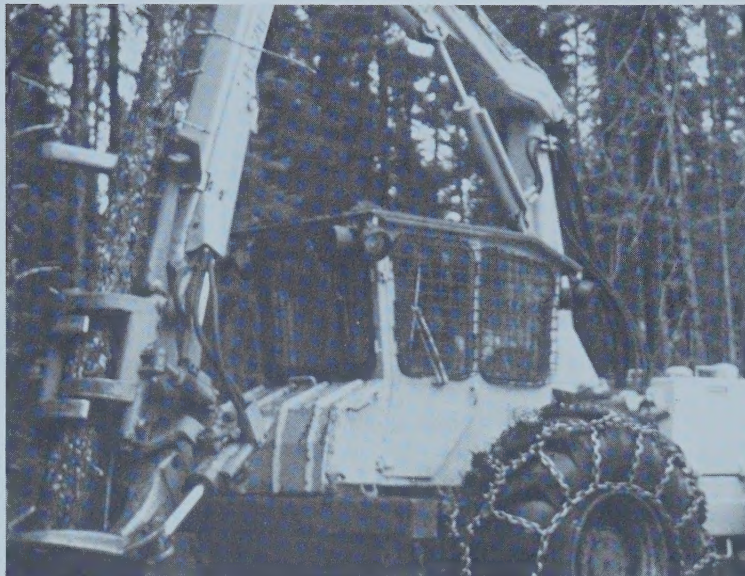
Cold finished leaded steel bars from Drummond McCall are used to make these threaded anchor nuts for use on transmission lines, light posts, etc.



40,000 lbs. of hollow structural tubing from Drummond McCall was used to support glass curtain walls in Edmonton's new Citadel Theatre.



A 232 lb. sprocket wheel, which was torch cut from C1035 steel plate from Drummond McCall, is being checked for the accuracy of its diameter.



Seamless steel tubing from Drummond McCall is used to make hydraulic cylinders for this machine which can fell and pile 1,000 trees per shift.



This 50 lb. coupling, made from 8½" alloy steel bar supplied by Drummond McCall, is precision machined and checked by micrometer before being used in a giant hydro electric power project.



This customer manufactures door locks using 6 different parts stamped out of cold rolled steel sheet, supplied and sheared to size by Drummond McCall.



20,000 lbs. of 'Atlas' stainless steel and 10,000 lbs. of anodized 'Alcan' aluminum sheet, both from Drummond McCall, were used in the renovation of Toronto Airport Terminal 1.



4,000 lbs. of alloy steel plate from Drummond McCall was used to fabricate the dump body of this truck.

Ten Year Financial Review

Thousands of dollars except where noted by asterisk

Income and Related Data

	1978	1977
Sales and Other Income	\$149,315	102,385
Cost of Sales and Expenses	138,562	95,317
Depreciation	1,191	969
Interest	2,444	1,251
Income Taxes	2,923	1,814
Extraordinary Item	526	—
Net Earnings	4,721	3,034
Dividends	2,483	1,414
Earnings Reinvested in the Business	2,238	1,620
Net Earnings per Share*	3.33	2.15
Dividends per Share – Regular*	1.05	1.00
– Special or Extra*	0.70	—

Other Financial Data

Capital Expenditures	1,393	510
Fixed Assets – Net	16,557	16,356
Working Capital	34,409	23,743
Long-Term Debt	14,925	6,450
Deferred Income Taxes	1,819	1,538
Shareholders' Equity	34,452	32,214
Shareholders' Equity per Share*	24.29	22.71
Total Assets	82,948	68,022
Return on Sales and Other Income	3.2%	3.0%
Return on Shareholders' Equity	14.2%	9.7%
Return on Total Assets	6.3%	5.2%

1976	1975	1974	1973	1972	1971	1970	1969
92,567	90,991	103,542	75,567	55,078	49,289	51,047	50,222
86,541	80,338	86,019	65,893	50,779	45,203	46,572	45,553
905	859	628	590	566	578	574	568
1,120	827	285	426	456	456	531	493
1,782	4,281	8,383	4,320	1,594	1,547	1,801	1,931
—	—	—	—	—	—	—	—
2,219	4,686	8,227	4,338	1,683	1,505	1,569	1,677
1,408	1,406	1,404	1,009	710	1,555	603	596
811	3,280	6,823	3,329	973	(50)	966	1,081
1.58	3.33	5.86	3.10	1.20	1.07	1.12	1.19
1.00	1.00	0.83	0.63	0.507	0.429	0.429	0.429
—	—	0.17	0.09	—	0.714	—	—
799	4,786	1,841	654	286	466	412	611
13,122	13,228	9,301	8,088	8,025	8,304	8,417	8,580
26,734	26,861	18,828	12,754	11,531	10,363	10,256	8,971
7,975	9,400	1,000	600	2,700	2,800	2,900	2,810
1,504	1,147	760	717	690	674	637	603
30,488	29,662	26,370	19,525	16,165	15,193	15,243	14,278
21.65	21.09	18.76	13.92	11.55	10.85	10.89	10.20
49,477	50,250	43,809	33,759	27,639	26,821	26,649	25,987
2.4%	5.2%	7.9%	5.7%	3.1%	3.1%	3.1%	3.1%
7.4%	16.7%	35.9%	24.3%	10.7%	9.9%	10.6%	12.1%
4.4%	10.0%	21.2%	14.1%	6.2%	5.6%	6.0%	6.7%

Auditors' Report

To the Shareholders of
Drummond McCall Inc.:

We have examined the consolidated balance sheet of Drummond McCall Inc. as at December 31, 1978 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.
Chartered Accountants

February 21, 1979

Consolidated Statement of Earnings

For the year ended December 31, 1978

	1978	1977
Sales and Other Income	\$149,315,377	\$102,384,799
Cost and Expenses		
Cost of sales and expenses, before the undernoted	138,561,632	95,316,766
Depreciation	1,191,208	969,025
Interest on long-term debt	1,259,284	978,618
Other interest	1,185,259	272,283
	142,197,383	97,536,692
Earnings Before Income Taxes and Extraordinary Item	7,117,994	4,848,107
Income Taxes		
Current	2,642,839	1,780,751
Deferred	280,533	33,702
	2,923,372	1,814,453
Net Earnings Before Extraordinary Item	4,194,622	3,033,654
Extraordinary Item	526,200	—
Net Earnings	\$ 4,720,822	\$ 3,033,654
Earnings per common share before extraordinary item	\$2.96	\$2.15
Earnings per common share	\$3.33	\$2.15

Consolidated Statement of Retained Earnings

For the year ended December 31, 1978

	1978	1977
Retained Earnings, Beginning of year	\$ 31,827,590	\$ 30,207,779
Net Earnings	4,720,822	3,033,654
	36,548,412	33,241,433
Dividends		
Common shares including tax thereon pertaining to Class B shares, \$1.75 per share (1977 – \$1.00)	2,482,637	1,413,843
Retained Earnings, End of year	\$ 34,065,775	\$ 31,827,590

Consolidated Balance Sheet

December 31, 1978

Assets	1978	1977
Current		
Cash	\$ 27,696	\$ 28,000
Accounts receivable	28,020,910	20,253,949
Inventories	37,965,547	31,232,649
Prepaid expenses	146,438	48,504
	<u>66,160,591</u>	<u>51,563,102</u>
Land, Buildings and Equipment, at cost		
less accumulated depreciation	16,557,088	16,355,785
Unamortized Debenture Issue Expense	230,161	103,000
	<u>\$82,947,840</u>	<u>\$68,021,887</u>
Liabilities and Shareholders' Equity		
Current		
Bank indebtedness	\$13,478,944	\$12,206,344
Accounts payable and accrued liabilities	17,283,930	12,124,733
Income and other taxes	464,095	739,411
Dividends payable	—	35,466
Long-term debt maturing within one year	525,000	2,713,780
	<u>31,751,969</u>	<u>27,819,734</u>
Long-Term Debt	<u>14,925,000</u>	<u>6,450,000</u>
Deferred Income Taxes	<u>1,818,596</u>	<u>1,538,063</u>
Shareholders' Equity		
Stated capital		
Common shares		
Authorized		
Class A Convertible shares — 5,150,000		
Class B Convertible shares — 5,150,000		
Issued and outstanding		
Class A Convertible shares		
1978 — 897,525; 1977 — 943,925		
Class B Convertible shares		
1978 — 521,125; 1977 — 474,725		
	386,500	386,500
Retained earnings	34,065,775	31,827,590
	<u>34,452,275</u>	<u>32,214,090</u>
	<u>\$82,947,840</u>	<u>\$68,021,887</u>

Approved by the board:
D. T. Bourke, Director
H. J. Lang, Director

Consolidated Statement of Changes in Financial Position

For the year ended December 31, 1978

	1978	1977
Source of Funds		
Net earnings before extraordinary item	\$ 4,194,622	\$ 3,033,654
Depreciation	1,191,208	969,025
Amortization of debenture issue expense	10,394	8,186
Deferred income taxes	280,533	33,702
Funds from operations	5,676,757	4,044,567
Extraordinary item	526,200	—
Increase in long-term debt	9,000,000	—
Issue of shares	—	106,750
	15,202,957	4,151,317
Application of Funds		
Acquisition of subsidiary company	—	9,617,965
Less: Working capital at date of acquisition	—	8,200,055
	—	1,417,910
Land, buildings and equipment	1,392,511	510,346
Long-term debt of subsidiary acquired maturing within one year	—	2,274,549
Decrease in other long-term debt	525,000	1,525,000
Debenture issue expense	137,555	—
Dividends	2,482,637	1,413,843
	4,537,703	7,141,648
Increase (decrease) in Working Capital	10,665,254	(2,990,331)
Working Capital, Beginning of Year	23,743,368	26,733,699
Working Capital, End of Year	\$34,408,622	\$23,743,368
Changes in Components of Working Capital		
Increases (decreases) in current assets		
Cash	\$ (304)	\$ 7,117
Accounts receivable	7,766,961	6,413,157
Inventories	6,732,898	8,893,552
Prepaid expenses	97,934	5,830
	14,597,489	15,319,656
Increases (decreases) in current liabilities		
Bank indebtedness	1,272,600	8,255,337
Accounts payable and accrued liabilities	5,159,197	7,703,688
Income and other taxes	(275,316)	126,716
Dividends payable	(35,466)	35,466
Long-term debt maturing within one year	(2,188,780)	2,188,780
	3,932,235	18,309,987
Increase (decrease) in Working Capital	\$10,665,254	\$ (2,990,331)

See accompanying notes to financial statements

Notes to Consolidated Financial Statements

December 31, 1978

1. Summary of Significant Accounting Policies

Principles of consolidation

The accompanying financial statements include the accounts of Drummond McCall Inc. and its wholly-owned subsidiaries, Quadra Steel Limited, and DMC Metals Inc., which was incorporated in the United States during 1978.

Inventories

Inventories are valued at the lower of average cost and net realizable value.

Land, buildings, equipment and depreciation

Land, buildings and equipment are carried at cost. Buildings and equipment are depreciated by the straight-line method at varying rates (ranging from 2½ % on buildings to 20% on mobile equipment) which are designed to amortize the cost of the assets over their estimated useful lives.

Income taxes

Income taxes include full provision for amounts currently payable and for those which have been deferred because of timing differences between depreciation for accounting purposes and capital cost allowances claimed for income tax purposes. The balance sheet caption, deferred income taxes, represents the accumulated amount of such deferrals.

Debenture issue expense

Expenses on the issue of long-term debt are amortized on a straight-line basis over the terms of the related obligations.

2. Continuance and Change of Name

A Certificate of Continuance was issued to the Corporation on December 30, 1978 continuing it under the Canada Business Corporations Act and changing its name from Drummond, McCall & Co., Limited – Drummond, McCall & Cie, Limitée to Drummond McCall Inc.

3. Land, Buildings and Equipment

	1978	1977
Land	\$ 1,830,623	\$ 1,830,623
Buildings	15,028,872	14,697,411
Equipment	11,624,775	10,774,686
	<u>28,484,270</u>	<u>27,302,720</u>
Less: Accumulated depreciation	11,927,182	10,946,935
	<u>\$16,557,088</u>	<u>\$16,355,785</u>

4. Long-Term Debt

	1978	1977
11½ % Sinking Fund Debentures Series A due July 31, 1990	\$ 6,450,000	\$ 6,975,000
10½ % Debentures Series B due June 15, 1978	—	1,000,000
10¼ % Sinking Fund Debentures Series C due October 15, 1993	9,000,000	—
9½ % mortgage due December 1, 1978	—	1,188,780
	15,450,000	9,163,780
Less: Amounts due within one year	525,000	2,713,780
	\$14,925,000	\$ 6,450,000

The Series A and C Debentures are secured by a floating charge on assets.

Sinking fund requirements in the next five years are: 1979 – \$525,000; 1980 – \$525,000; 1981 – \$975,000; 1982 – \$975,000; 1983 – \$975,000.

5. Shareholders' Equity

- (a) The Class A and the Class B shares are interconvertible at any time at the option of the holder on a one for one basis and participate equally as to dividends.
- (b) During the year 56,350 (29,775 in 1977) Class A Convertible Common Shares were converted to Class B and 9,950 (11,525 in 1977) Class B Convertible Common Shares were converted to Class A.
- (c) The trust indentures securing the Series A and C Sinking Fund Debentures place certain restrictions on the payment of dividends. The most restrictive of these requires that total dividend payments subsequent to December 31, 1977 be limited to the aggregate of \$5,000,000 and the consolidated net earnings and the consideration received by the Corporation for shares of its capital stock subsequent to December 31, 1977.

6. Extraordinary Item

The extraordinary item consists of a reduction in income taxes of Quadra Steel Limited resulting from the application of all available prior years' losses.

7. Pension Plan

The Corporation and its Canadian subsidiary had trustee contributory pension plans which were merged into a single plan effective January 1, 1979. Based on the latest actuarial reports, the value of the assets in the fund exceed the value of pension benefits earned in respect of services up to December 31, 1978.

8. Remuneration of Directors and Officers

The aggregate direct remuneration paid or payable in 1978 by the Corporation and its subsidiaries to directors and senior officers was \$484,315 (1977 – \$439,167).

9. Anti-Inflation Program

The Corporation and its Canadian subsidiary were subject to controls on prices, profits, compensation and dividends instituted by the Federal Government in the Anti-Inflation Act which became effective October 14, 1975 and expired December 31, 1978. The Corporation is of the opinion that it and its Canadian subsidiary have complied with this legislation.



Products

Aluminum
Brass and Copper
Nickel
Alloy Steel
Carbon Steel
Stainless Steel